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DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

Secret

No 42

2 December 1972

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Approved For Release 2003/08/05 : CIA-RDP79T00975A023300060001-6

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No. 0289/72
2 December 1972

Central Intelligence Bulletin

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SOUTH VIETNAM: The Communists are telling their cadre in the South that the bulk of North Vietnamese troops will stay on in South Vietnam under one guise or another following a cease-fire.

Most accounts indicate that the North Vietnamese forces will be broken down and dispersed in smaller-sized units, from squad to battalion size, and will be put under ostensible control of the National Liberation Front military apparatus. Some reports claim that the larger-sized North Vietnamese elements will be hidden in safe base areas pending new orders. Other reports indicate that smaller North Vietnamese elements will operate with the Viet Cong units and help in the coming "political struggle." The reports suggest that the Communists plan to be flexible on the role of the North Vietnamese, tailoring their activities to local needs.

In briefing the cadre on the role of the North Vietnamese after a cease-fire, the Communist hierarchy appears also to be seeking to reassure the Viet Cong that they will not be deserted and left more vulnerable to government pressures. Many of the briefings continue to assert, in fact, that the Communists plan to renew their military effort sometime after the cease-fire to win control of the country. The timing and nature of this action are still very vague, however, and the claims of a general military offensive at this point may be largely for morale-building purposes. [redacted]

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INDIA-US: Foreign Minister Swaran Singh's parliamentary statement on 30 November may represent a significant signal about India's interest in improving relations with the US.

Singh's conciliatory speech follows a series of restrained but friendly gestures during November. These included an unusually balanced statement regarding US efforts to achieve a Vietnam peace settlement and Prime Minister Gandhi's cordial congratulatory message to President Nixon on his electoral victory. Since Parliament convened in mid-November, government spokesmen have tried to play down some of the earlier charges by Mrs. Gandhi and other high-level officials accusing the CIA of interfering in a wide range of Indian political and economic affairs. Moreover, Foreign Secretary-designate Kewal Singh has expressed his interest in restoring good relations and should be able to deal with Americans more easily than his mercurial, pro-Soviet predecessor, T. N. Kaul.

The shift in the Indian attitude toward the US stems from various factors. Economic difficulties, including food shortages, probably are causing Indian officials to realize they may again have to seek wheat in the US market. New Delhi may also be trying to offset pressure from Moscow for closer Indo-Soviet cooperation and, by emphasizing its independence from Moscow, to keep the way open for normalization of relations with China. Finally, the Indian Government probably hopes that re-establishment of cordial relations with Washington will make a resumption of US arms deliveries to Pakistan less likely. [redacted]

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USSR-CHILE: Chilean President Allende goes to Moscow on 5 December with some hope of receiving substantial Soviet assistance. There are indications, however, that the USSR will continue its cautious approach to aiding Chile.

Soviet press treatment of the visit, scheduled to last four days, has thus far been circumspect. The press did not even note that Allende was coming until 30 November, and the date of his visit has still not been mentioned. Two other Chilean delegations which may have laid the groundwork for the Allende visit, however, were warmly received. Chilean Communist Party Secretary-General Corvalan arrived in Moscow on 15 November, and a Chilean commercial-financial mission arrived four days later. Soviet media gave considerable coverage to Corvalan's meeting with Brezhnev and other top Soviet officials on 22 November. Brezhnev reportedly assured Corvalan of Moscow's continued "all-round support" and spoke of "consolidating political, trade, and economic ties." The Soviet leaders noted current Chilean problems, citing the attempted embargo of copper in particular, but voiced "confidence" these would be overcome.

During Allende's two years in office, similar assurances of Soviet backing have often appeared. With the exception of one \$50-million allocation of hard currency, however, economic aid from Moscow has failed to answer Chile's most urgent needs, especially in terms of the hard-currency credits Allende requires.

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[redacted] Moscow has no pressing need for copper, however, and substantial hard-currency assistance to Chile at this time seems unlikely.

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Moscow has reportedly shown greater willingness to provide Chile with military equipment. Various sources indicate that about \$300 million in credits for military purchases has been offered on very favorable terms. [redacted]

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[redacted] Allende's entourage will include a high-ranking military officer, but the bulk of the military is probably not inclined to become dependent on Soviet equipment.

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URUGUAY: Congress has extended for another 75 days the suspension of constitutional guarantees, enabling the army to continue its countersubversive campaign against the Tupamaros.

Tensions between the military and civilian politicians appear to have relaxed with the release from jail of Colorado Party leader Jorge Batlle, who is under indictment for making a speech criticizing the armed forces. Military authorities have also failed to press for immediate action against Blanco opposition senator Wilson Ferreira, who recently provoked the navy by publicly criticizing the government for allowing Argentine ships to fish in Uruguayan waters.

Despite these concessions, military commanders--especially within the army--continue to press for correction of economic abuses. Earlier this week President Bordaberry announced his intention to give the military a greater role in his government. Although he made no specific appointments, he probably plans to assign officers to positions in Uruguay's numerous regulatory agencies and public enterprises at the end of this year or early in 1973.

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*FINLAND: Partisan rivalries over domestic issues will apparently force Helsinki to delay signing the draft free trade agreement with the EC until sometime next year.

Nearly all of Finland's eight political parties are angling for support on their favorite issues as their price for signing the EC agreement. The situation is further complicated by the attempt of Socialists and Centrists in the four-party coalition to link EC treaty legislation with exceptional legislation automatically extending President Kekkonen's term in office. Kekkonen's continuation as president would act as a form of guarantee to Moscow that Finland would not permit its economic arrangements with the EC to grow into political ties. While most parties will eventually support the EC arrangement, they are genuinely divided over how to proceed on the presidential issue.

After several long inter-party negotiating sessions on the troublesome issues earlier this week, Social Democratic Prime Minister Sorsa and Centrist Foreign Minister Karjalainen agreed that the situation was "critical." Representatives from all Finnish parties met again yesterday to consider the "presidential question." If a satisfactory formula for extending Kekkonen's term is worked out, movement on EC and other issues might follow. A stalemate, on the other hand, could bring down the government for the third time since October 1971.

In the meantime, the Finnish trade minister announced on 28 November that his government was prepared to negotiate temporary arrangements with Denmark and Britain to protect Finnish exports until an EC agreement is signed. The current arrangement covering such exports expires on 31 December, and Finnish press estimates suggest it may take several months to resolve the EC issue. Both London and Copenhagen responded by demanding that the Finns

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announce a definite date for signing the agreement before any discussions concerning an interim arrangement will be considered.

The government is also beset by opposition from the Finnish Communist Party and other staunchly anti-EC elements. The Communists will probably hold out for some sort of arrangement between Finland and CEMA as recompense for abstaining on the EC issue.

Thus far, President Kekkonen has not intervened in the EC dispute, probably hoping that the succession question would be cleared up first. But the government has become increasingly hamstrung on ancillary issues, and presidential intervention now may be necessary to restore movement. Kekkonen has worked long and hard to arrange the EC agreement, and he is unlikely to allow it to slip away because of domestic wrangling.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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MEXICO: President Echeverria is proposing more controls on foreign investment.

He plans to send draft legislation to Congress that would establish a new cabinet-level group to "guide foreign investment" by ensuring that Mexico accepts only those investments that it really needs. The inter-ministerial group would encourage domestic private investment by giving financial and technical support to Mexican businesses that are in danger of being bought out by foreign interests. The law reportedly would also give the government authority to buy back Mexican businesses already sold to foreigners.

This proposal complements one already under consideration by the legislature that would give the government substantial control over the issuing of contracts to transfer technology between companies in Mexico and foreign firms. It lists several conditions under which the licenses covering foreign-owned trademarks, patents, and technical services can be regulated. Congress is expected to approve this law before the end of the month.

The proposed laws and the recent talk of economic reforms are not designed to produce drastic changes in economic policy. The government has no intention of seriously disrupting the vital flow of foreign investment and know-how. The Echeverria administration, however, is willing to take certain risks in order to curb the growth of foreign economic influence and the already large yearly outflow of foreign remittances. Implicit in all this is an assertion of economic independence and an attempt to end what officialdom views as foreign exploitation. The staunchest advocate of economic nationalism, Patrimony Secretary Flores de la Pena, who may sit on the new cabinet committee, appears convinced that the government must provide more protection for Mexican interests, both private and public. [redacted]

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NOTE

JAPAN: Wholesale prices rose by an estimated 1.5 percent during November, the biggest monthly increase in seven years. The inflationary pressure reflects unexpectedly fast recovery from the economic slowdown that ended earlier this year and probably is being reinforced by the increased liquidity stemming from Japan's large balance-of-payments surplus. Government spending under the large supplementary budget recently passed by the Diet will aggravate the situation but, if prices rise too fast, the Bank of Japan can be expected to adopt tighter monetary policies. So far it has been reluctant to do so for fear of slowing the economic recovery.

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